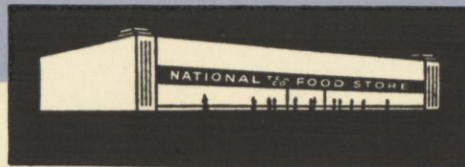
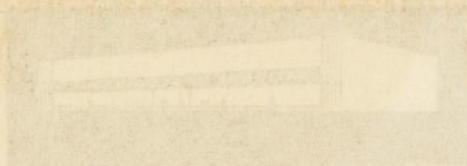


National Tea Co.



ANNUAL REPORT 1942

National Tea Co.



ANNUAL REPORT 1942

Annual Report

TO THE STOCKHOLDERS FOR YEAR
ENDING DECEMBER 31, 1942



N A T I O N A L T E A C O .

PROUDLY WE PAY TRIBUTE TO THE
MEMBERS OF OUR ORGANIZATION WHO
ANSWERED THE CALL TO THE COLORS



Annual Report

T O T H E S T O C K H O L D E R S

TO OUR STOCKHOLDERS:

Our sales for 1942 amounted to \$89,951,516, an increase of \$17,769,827, or 24.6% over the year before. This was to be expected because business conditions were generally much better and prices were higher.

Our net profit after federal taxes was \$412,155 as compared with \$425,152 in 1941, after reserving \$120,000 more for income taxes than the year before.

The ceiling prices dealt us quite a blow because the OPA did not recognize the well-known lag between wholesale and retail prices, and chose to fix the month of March for both so that at the time we naturally would have increased prices because of increasing costs, we were prevented from doing so. We are doing our best to overcome this hurdle by increasing economies in operation.

We have been bothered, of course, with shortages of many items in our line, especially fresh meats. We have no idea what the condition will be during the coming year.

As the result of a recent examination, the Internal Revenue Department has disallowed depreciation charges for the years 1940 and 1941 amounting to \$245,700 and assessed additional income taxes for these years amounting to \$56,800. With the approval of our auditors,

Facts of '42

That you may know that the business problems created by the War Effort are being faced patriotically, courageously and capably by your Company, a few of them are presented briefly throughout this report.



these items, together with other prior year differences amounting to \$48,000, have been adjusted through surplus and our accounts made to conform with the income tax figures. The effect is to return to surplus a net amount of \$236,900 and to reduce the depreciation charges in the current year by approximately \$58,000 as compared with our former rates.

The reserve of \$290,000 for 1942 income tax is charged against current earnings and of course is exclusive of the figures in the preceding paragraph.

In common with all chains we are still reducing the number of our stores. We began the year with 1,015 and ended with 950 stores having opened 17 and closed 82.

The average sales record which we have given in the past plus the 1942 record is as follows:

	1938	1939	1940	1941	1942
First quarter (12 weeks).....	\$ 941	\$ 944	\$1,122	\$1,166	\$1,745
Second quarter (12 weeks).....	934	952	1,093	1,250	1,736
Third quarter (16 weeks).....	890	989	1,074	1,327	1,732
Fourth quarter (12 weeks).....	976	1,129	1,210	1,608	1,811

Our inventories are increased over 1941 but this is largely accounted for by the higher cost of goods. The inventories are valued at the lower of cost or current replacement market prices, as explained in our last report.

A year ago we said we would try to pay all arrearages on preferred dividends and put them on a regular quarterly schedule. This we have been able to do to date.

While it was increasingly difficult to open stores in new locations requiring any building remodelling, and very difficult even to refurnish stores, we have spent during the year \$595,520 for capital improvements and \$615,696 for repairs. We believe our stores look better today than they have for many years. Improvements are probably at an end for the duration as it is practically impossible to do further work.

During the year we disposed of seven pieces of real estate for \$57,461 on which we sustained a loss of \$55,880 as compared with a profit on real estate sales of \$47,110 a year ago. This loss has been deducted from our earnings.

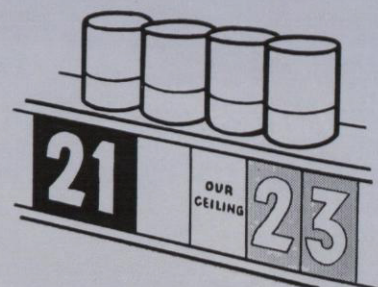
We also sold our vegetable canning plant at Sterling, Illinois, and showed a loss of \$7,703. In consequence of this we have dissolved Sterling Food Products, Inc., a subsidiary.

It is with deep regret we tell you that Mr. Judson F. Stone will no longer serve as a director. He has been on our Board for five years, and his excellent judgment and wise



CEILING PRICES

In April a government order was issued making it necessary to show not only the price of our merchandise in the stores, but also the Ceiling Price. (Price at which the same merchandise had been sold in March). In order to avoid confusion the Company handled the problem with separate yellow tickets as shown, for the cost of living items. Other items affected by the order were covered with a separate price book, known as the Ceiling Price Book.



counsel have contributed greatly to the improvement of our business. Pressure of his many interests has brought him to his present decision in which we are compelled to concur. The McCormick Estate, whose interests he has represented for many years, continues to own a substantial block of our preferred stock.

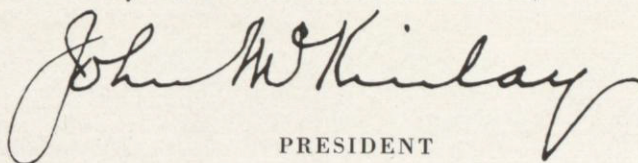
We also regret Mr. Guy A. Richardson feels he should no longer serve on our Board. Unfortunately for us, shortly after his election he was transferred to Washington as one of the chief assistants to Mr. Joseph B. Eastman in the Office of Defense Transportation, and has not been able to give the time he felt was our due. As he is still in Washington, he believes it best to retire from our Board.

Mr. Guy A. Thomas, whom we are now nominating as director, has been the owner of a substantial number of shares of our stock for many years, and at one time was one of our directors. He is Chairman of the Board of Commander-Larabee Milling Company. We expect much from his knowledge of the food business and his ripe judgment resulting from his long experience. Mr. Thomas lives in Minneapolis, but frequently visits Chicago in connection with duties as a director of the Chicago & North Western Railroad, the Chicago, St. Paul, Minneapolis & Omaha Railroad, and the Allied Mills Company.

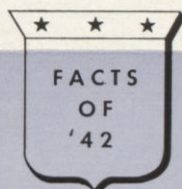
We are nominating Arthur J. Hansen to fill the other vacancy. Mr. Hansen has been manager of the Minneapolis branch of our company for a year and assistant manager for four years. He started in this company in 1919 and has worked hard and won his spurs. He has our entire confidence.

Particularly at this time we desire to express more than a mere formal appreciation of the efforts of our employees. Probably never in the history of our company had employees in our stores been harassed by so many details resulting from shortages and government regulations, and we feel our employees have stood up to all these troubles with courage and discretion.

By order of the Board of Directors,

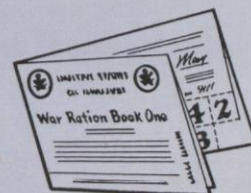

PRESIDENT

March 3, 1943



SUGAR AND COFFEE RATIONING

Early in the year, rumors of the possibility of Sugar Rationing drove many customers to hoarding it. For weeks it was practically impossible to keep a stock even though purchases were limited to each customer. Rationing of Sugar and Coffee has allowed us to catch up, although the handling of ration coupons involves many extra store operations.



ASSETS

	<i>Dec. 31, 1942</i>	<i>Dec. 31, 1941</i>
CURRENT ASSETS:		
Cash	\$ 2,080,654.82	\$ 1,975,042.07
Accounts receivable—		
Trade	\$ 256,717.46	\$ 426,162.51
Due from relief agencies.....	81,272.08	135,073.65
Other	28,116.12	24,802.96
	<u>\$ 366,105.66</u>	<u>\$ 586,039.12</u>
<i>Less: Reserve</i>	52,507.25	58,143.76
	<u>\$ 313,598.41</u>	<u>\$ 527,895.36</u>
Inventories, at lower of cost or market—		
Merchandise	\$ 6,433,221.27	\$ 5,514,769.42
Supplies	180,374.26	172,232.25
	<u>\$ 6,613,595.53</u>	<u>\$ 5,687,001.67</u>
Total current assets.....	<u>\$ 9,007,848.76</u>	<u>\$ 8,189,939.10</u>
OTHER ASSETS:		
Notes receivable (less reserve of \$1,456.28 at December 31, 1942)	\$ 4,520.11	\$ 11,055.48
Mortgages receivable	37,042.65	24,099.85
Investments	45.00	2,346.50
	<u>\$ 41,607.76</u>	<u>\$ 37,501.83</u>
FIXED ASSETS—AT COST, EXCEPT BUILDINGS:		
(The net value of buildings was written down against earned surplus in 1935. This write-down as to buildings owned at December 31, 1942 amounts to \$1,039,121.98)		
Land	\$ 3,041,363.69	\$ 3,153,255.58
Buildings	\$ 4,668,225.06	\$ 4,766,319.25
<i>Less: Reserve for depreciation</i>	2,045,467.68	1,962,473.40
	<u>\$ 2,622,757.38</u>	<u>\$ 2,803,845.85</u>
Store fixtures, machinery and delivery equipment.....	\$ 8,212,188.28	\$ 8,130,458.92
<i>Less: Reserve for depreciation</i>	5,953,758.35	6,323,303.80
	<u>\$ 2,258,429.93</u>	<u>\$ 1,807,155.12</u>
Leaseholds and improvements being amortized.....	\$ 118,309.72	\$ 108,921.91
Total fixed assets.....	<u>\$ 8,040,860.72</u>	<u>\$ 7,873,178.46</u>
GOOD WILL	\$ 1.00	\$ 1.00
DEFERRED CHARGES:		
Prepaid rents, taxes, insurance, etc.....	\$ 176,703.32	\$ 144,778.79
	<u>\$17,267,021.56</u>	<u>\$16,245,399.18</u>

Balance Sheet

1942 AND 1941

LIABILITIES AND CAPITAL

	Dec. 31, 1942	Dec. 31, 1941
CURRENT LIABILITIES:		
Notes payable—		
Banks	\$ 400,000.00	\$ 800,000.00
Real estate mortgages.....	31,597.38	31,428.12
	<u>\$ 431,597.38</u>	<u>\$ 831,428.12</u>
Accounts payable	\$ 2,616,293.35	\$ 2,032,289.71
Commercial letters of credit secured by merchandise.....	142,861.24	53,753.55
Accrued expenses—		
Pay rolls and commissions.....	293,082.42	255,712.51
Taxes	941,004.64	743,965.34
Interest	8,157.24	4,928.26
	<u>\$ 4,001,398.89</u>	<u>\$ 3,090,649.37</u>
Total current liabilities.....	<u>\$ 4,432,996.27</u>	<u>\$ 3,922,077.49</u>
REAL ESTATE MORTGAGES:		
Due serially within six years.....	\$ 272,558.49	\$ 335,199.17
Due after six years.....	83,107.32	90,194.42
	<u>\$ 355,665.81</u>	<u>\$ 425,393.59</u>
ACCOUNT PAYABLE (re store lease cancelled):		
Payable \$3,000 per annum.....	\$ 14,000.00	\$ 17,000.00
RESERVE FOR SELF INSURANCE.....	<u>\$ 126,728.37</u>	<u>\$ 121,087.41</u>
CAPITAL STOCK:		
Preferred, 5½% cumulative, par value \$10, redeemable at par on call or liquidation—		
	Shares	
Authorized and issued.....	200,000	\$ 2,000,000.00
Less: Held in treasury.....	56,893	568,930.00
Outstanding	<u>143,107</u>	<u>\$ 1,431,070.00</u>
Common, no par value—		
Authorized	800,000	
Issued	660,000	\$ 8,250,000.00
Less: Held in treasury.....	37,350	466,875.00
Outstanding	<u>622,650</u>	<u>\$ 7,783,125.00</u>
SURPLUS, PER STATEMENT ATTACHED:		
Paid-in	\$ 69,398.05	\$ 69,398.05
Earned—		
Restricted by reason of purchase of treasury stock.....	966,406.95	966,406.95
Unrestricted	2,087,631.11	1,509,840.69
	<u>\$ 3,123,436.11</u>	<u>\$ 2,545,645.69</u>
	<u>\$17,267,021.56</u>	<u>\$16,245,399.18</u>

Consolidated Statement of Income and Surplus

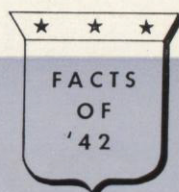
FOR THE YEARS ENDED DECEMBER 31, 1942 AND DECEMBER 31, 1941

	Year ended Dec. 31, 1942	Year ended Dec. 31, 1941
Sales	\$89,951,516.29	\$72,181,689.11
Cost of sales and expenses (<i>Note 1</i>).....	\$88,595,668.78	\$71,022,342.96
Depreciation (<i>Note 2</i>).....	533,076.26	582,103.48
	<u>\$89,128,745.04</u>	<u>\$71,604,446.44</u>
Net operating profit.....	\$ 822,771.25	\$ 577,242.67
Dividends received from investments.....	\$ 28.75	\$ 28.75
Profit or loss on disposal of fixed assets.....	90,022.05	59,988.08
	<u>\$ 89,993.30</u>	<u>\$ 60,016.83</u>
	\$ 732,777.95	\$ 637,259.50
Interest	30,622.38	42,107.15
Net profit before provision for federal income taxes.....	\$ 702,155.57	\$ 595,152.35
Provision for federal income taxes (<i>Note 3</i>).....	290,000.00	170,000.00
Net profit transferred to earned surplus.....	\$ 412,155.57	\$ 425,152.35
Earned surplus at beginning of year.....	2,476,247.64	2,112,223.43
Adjustments of chain store and processing taxes—prior years.....	86,093.53	96,289.56
Depreciation—prior years—disallowed for income tax purposes.....	293,770.37	None
	<u>\$ 3,268,267.11</u>	<u>\$ 2,633,665.34</u>
Additional federal income taxes—prior years.....	\$ 56,814.97	None
Preferred dividends	157,414.08	157,417.70
	<u>\$ 214,229.05</u>	<u>\$ 157,417.70</u>
Earned surplus	\$ 3,054,038.06	\$ 2,476,247.64
Paid-in surplus, being excess of par or stated value of treasury stock over cost	69,398.05	69,398.05
Surplus as per balance sheet.....	<u>\$ 3,123,436.11</u>	<u>\$ 2,545,645.69</u>

Note 1: Includes rent received for space not used by the company in store properties owned or leased, amounting to \$216,735.37 in 1942 and \$218,721.38 in 1941, before deducting depreciation, taxes, rent paid and other expense applicable to this space.

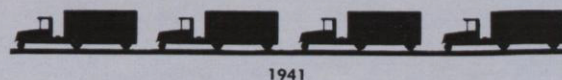
Note 2: Depreciation rates were reduced in 1942 to those allowed for federal income tax purposes. At the old rates the provision for 1942 would have been \$57,870.46 more.

Note 3: No provision is required for federal excess profits tax. The return for this tax for 1942 will be filed on invested capital basis.



RESTRICTED STORE DELIVERIES

In order to conserve rubber and gas your company imposed restrictions on trucking shipments to stores early in the year. Although this makes for hardships particularly in the distribution of perishables, even further restrictions may have to be put into effect in 1943.



Auditor's Certificate

TO THE STOCKHOLDERS,
NATIONAL TEA CO.,
CHICAGO, ILLINOIS.

We have examined the consolidated balance sheet of National Tea Co. (Illinois Corporation) and subsidiaries as of December 31, 1942 and the consolidated statement of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related consolidated statement of income and surplus present fairly the consolidated position of the Companies at December 31, 1942, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We had previously made an examination of the accompanying consolidated balance sheet as at December 31, 1941 and the consolidated statement of income and surplus for the year ended that date, which are presented for the purpose of comparison.

ARTHUR YOUNG & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

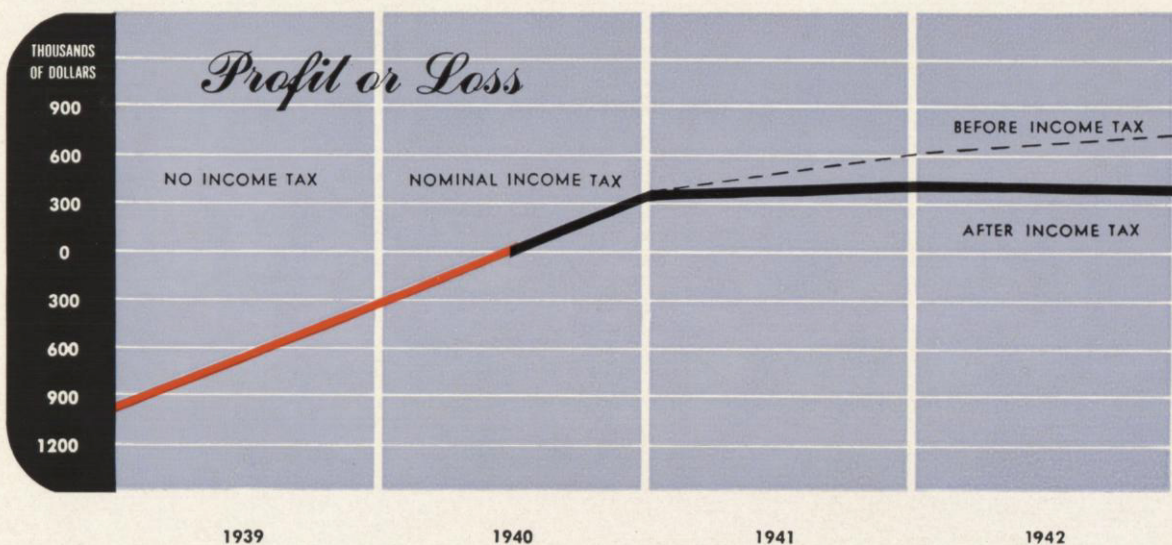
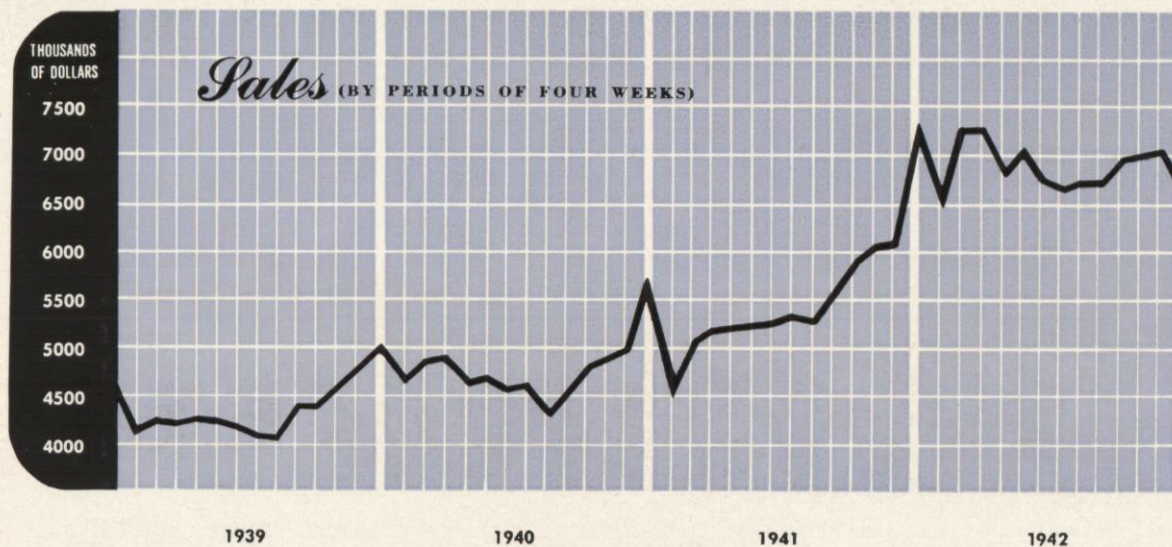
Chicago, Illinois
February 18, 1943



CURTAILMENT OF EXPANSION

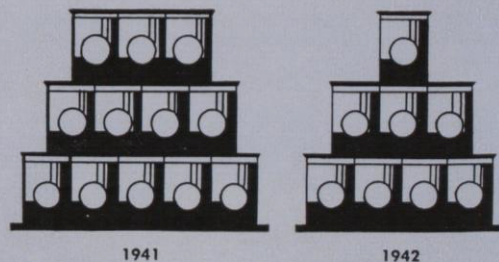
Although your company has been able to carry out a part of its modernization program, various limitation orders restricting expansion or modernization of stores has made it impossible for the company to follow through with its new store program in its entirety.





LIMITATION ORDERS

Limitation orders by several governmental agencies have increased the difficulty of procuring merchandise and have made it necessary to limit customers' purchases of many items.



National Tea Co. Produce Maintains High Quality Level and Increased Sales Volume

During the past year, the Government's Nutritional Programs have placed great stress on the importance of fresh fruits and vegetables in the wartime diet. To effectively serve this increasing market, National Tea Co. has maintained its high quality level and enlarged its already wide variety. The resulting increase in our produce sales is evidence of the consumer's acceptance of National Tea Co.'s fresher quality, wider variety and careful supervision of display and merchandising.



PERSONNEL CHANGES

During the year our personnel structure has changed rapidly in replacing the many employees now in the armed forces or defense plants. Constant addition of new people, many of them women, has required intensive training and careful supervision in order to maintain efficient service to our customers.



Officers and Directors

OF NATIONAL TEA CO.

JOHN MCKINLAY

Director • President

BURT J. DICKENS

Director • Vice President

GEORGE S. RASMUSSEN, JR.

Director • Assistant Secretary

ROBERT V. RASMUSSEN

Director • Vice President

GUY A. RICHARDSON

Director

WILLIAM E. RUSSELL

Director • Secretary

JUDSON F. STONE

Director

TH. RASMUSSEN

Treasurer

CLARENCE E. BEARD

Assistant Treasurer



Transfer Agents

The First National Bank
38 S. Dearborn Street
Chicago, Illinois

The Chase National Bank
11 Broad Street
New York, N. Y.

Registrars

Continental Illinois National
Bank and Trust Co.
231 S. LaSalle Street
Chicago, Illinois

The New York Trust Company
100 Broadway
New York, N. Y.

